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AZ CORP COMMISSION  
DOCKET CONTROL

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

BOB STUMP, CHAIRMAN  
GARY PIERCE  
BRENDA BURNS  
SUSAN BITTER SMITH  
BOB BURNS

Arizona Corporation Commission  
**DOCKETED**

SEP 16 2013

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IN THE MATTER OF THE APPLICATION  
OF SANDARIO WATER COMPANY, INC.  
FOR APPROVAL OF A RATE INCREASE

DOCKET NO. W-01831A-12-0392  
DOCKET NO. W-01831A-12-0467

IN THE MATTER OF THE APPLICATION  
OF SANDARIO WATER COMPANY, INC.  
FOR AUTHORITY TO INCUR LONG-  
TERM DEBT.

**NOTICE OF PARTIAL  
SETTLEMENT**

Pursuant to the Court's bench instruction during the procedural conference held on  
August 16, 2013, Sandario Water Company ("Company") hereby files this Notice of  
Partial Settlement.

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## IDENTIFICATION OF ISSUES RAISED

The Company raised the following six issues in its response to the Revised Staff Report:

- Project Completion Date;
- Loan Amount Authorization;
- Income Tax Recovery;
- Best Management Practices (“BMPs”);
- CIAC Mismatch; and
- Recovery of Debt Service Reserve (“DSR”).

Three of these six issues have been settled.

## SETTLED ISSUES

### 1. Project Completion Date

Staff initially recommended that the Company file the storage tank Approval of Construction by no later than December 15, 2015, which would give the Company about 30 months to complete the construction project provided the decision occurred during the Summer of 2013. Alternatively, the Company proposed the filing due date triggered 30 months after the date of the decision. Staff and the Company clarified and agreed that the construction project completion date should be 30 months after the date of the decision.

### 2. Loan Authorization Amount

Staff initially recommended that the Company’s borrowing authority should be limited to no more than \$587,650 to construct a 100,000 gallon storage tank and upgrade substandard electrical equipment. The Company proposed borrowing \$633,450 to complete the improvements. The Company compromised and agreed to Staff’s position, limiting the loan amount to no more than \$587,650.

### 3. Income Tax Recovery

Staff initially recommended no income tax recovery for the Company. The Company proposed increasing the revenue requirement by \$16,891.37 to allow for

1 recovery of income tax expense. At the settlement meeting, Staff offered its calculation  
2 of income tax expense of \$6,248. The Company compromised and agreed to Staff's  
3 position to increase the revenue requirement by \$6,248 for income tax recovery.  
4

#### 5 **UNRESOLVED ISSUES**

##### 6 **4. Best Management Practices ("BMPs")**

7 Staff initially recommended and maintains that the Company be required to adopt  
8 at least three BMPs for Commission review and consideration. The Company proposed  
9 no BMPs because the Company is within an AMA and understands that certain  
10 Commissioners believe BMPs are unnecessary in such situations.

##### 11 **5. CIAC Mismatch**

12 Staff and the Company did not reach an agreement regarding the CIAC mismatch  
13 issue. The Company maintains that the CIAC amortization for plant funded with AIAC,  
14 which later converted to CIAC, be matched with the accumulated depreciation of the  
15 plant placed into service by use of a higher CIAC amortization rate. In time, this will  
16 correct the negative rate base caused by the low amount of AIAC repayments versus the  
17 rate of depreciation on the plant. Staff continues to recommend denial of this approach.  
18

##### 19 **6. Recovery of DSR**

20 Staff's position is the Company should pay the estimated \$8,892 annual DSR from  
21 its estimated \$27,107 of operating income, without any additional revenue to pay for this  
22 cost. The Company believes that the revenue requirement should be increased by \$8,892  
23 to pay for DSR. Alternatively, the Company believes raising the WIFA Surcharge to pay  
24 for the DSR is appropriate provided there are no complex accounting compliance  
25 measures imposed as a result.

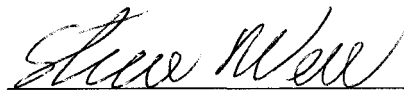
#### 26 **CONCLUSION AND PROCUDURAL SUGGESTIONS**

27 In sum, the Company believes that the settlement meeting proved fruitful as half  
28 of the issues were resolved. As for the three remaining issues, the Company believes  
there is no need for a hearing. But if the Court believes more information would be

1 helpful, then the Company respectfully suggests that the parties could be ordered to file  
2 final position testimony within 10 business days. There would be no need for the parties  
3 to respond to these filings because the issues will have been fully briefed.  
4

5 RESPECTFULLY SUBMITTED this 16<sup>th</sup> day of September.

6 **MOYES SELLERS & HENDRICKS LTD.**

7  
8 

9 Steve Wene

10 Attorneys for Sandario Water Company

11 Original and 13 copies filed  
12 This 16<sup>th</sup> day of September 2013, with:

13 Docket Control  
14 Arizona Corporation Commission  
15 1200 West Washington  
16 Phoenix, Arizona 85007

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